

INTER-OFFICE CORRESPONDENCE

AG Personal File

FROM: Raymond B. Fosdick

DATE: October 21, 1946

TO:

Dr. Gregg	AS
Dr. Loucks	
Dr. Burwell	

COMMENTS:

CHINA

SUBJECT:

I am writing this memorandum more to clarify my own thoughts than to initiate an argument. As I told Dr. Gregg and Dr. Loucks the other day, and as I think I told Dr. Burwell in a brief moment at Sanders Theatre last week, I read your tentative report with admiration for its vividness and clarity and for the white light which it throws on the confused picture of China. I had not before seen so illuminating a record of the Chinese situation, and I am sure that just the picture itself will be worth to the Trustees of the Foundation all that your report cost in terms of hard travel and infinite patience.

But I am troubled - deeply troubled - by what seems to me to be the gap between your description of conditions in China and your conclusions; and the more I study the report - and I have spent this week end on it - the more convinced I am that the gap is too wide to be bridged by a page or two of comment that would describe the process by which you arrived at your figures.

Frankly, if your description of the economic and exchange situation in China is correct - and I think it is true beyond the shadow

of a doubt - I do not believe that the Trustees of the Foundation would be at all willing at this time to make a definite commitment for the future. The report states, for example, that "rapid, profound and continuing change marks the present situation in China" and that "the present situation is dark." You say: "The present unpredictability of the extent and rapidity of inflation paralyzes planning."

This same comment is made by such business concerns as I was able to get in touch with - concerns that have extensive operations in China, i.e., the Standard Oil Company, the Chase Bank, the National City Bank and the International General Electric Company. They underscore everything you say in your report about the chaotic conditions and uncertain future in China. My question is how in view of this complete "unpredictability" - to use your word - the Trustees of the Foundation can be persuaded at this juncture to undertake a permanent and final financial plan? What possible assurance is there that the solution you propose would be a lasting one, guaranteeing the indefinite continuance, with cessation of further Foundation assistance, of a medical school of high scientific and moral integrity?

When your Commission went to China last May, we all had high hopes that you would find some evidence that the conditions over there were beginning to straighten out. These hopes have not been fulfilled, as your honest and objective report abundantly demonstrates. Indeed, there seems to be every indication that since your visit the situation has become worse; and the future today - from such reports as I can get from the State Department and elsewhere - looks far darker than it did in July when your report was drafted. As an indication of what is happening, when you wrote your report, exchange was somewhere around 2480 : 1.

Today the official rate is 3350 : 1; but nominal quotations range from 4400-6000 : 1. Moreover the war in China is growing in bitterness and intensity, with solution apparently indefinitely postponed.

My query is this: How can a fixed and final financial plan, made under such circumstances, possibly be anything else than a blind guess? You say: "The Trustees and Administrators of the PUMC should know well in advance (italics yours) what minimum sum they can plan upon having as income for a year's operation." You further say: "Such a procedure would give the PUMC trustees an immediate and clear view of what annual support from the CMB they may count on during a five year period. . . . The valuable purpose served by this plan is the foreknowledge it gives the administration of the school of what it must plan for well in advance."

All this would be true if conditions in China had some degree of stabilization. With conditions as they are now, however, your recommendations frankly seem to me to have no immediate significance. With present and prospective exchange fluctuations, and the "permanently increased cost of living in China" (p. 29), where does one find assurance that the yield in Chinese currency will provide a "finiteness of income" and "the cessation of indefinite dependence on The Rockefeller Foundation"? In other words, might not the exchange-inflation situation present the PUMC with a problem in which US\$ stipends would be completely inadequate in terms of Chinese currency needs?

You suggest a possible hedge against this contingency by having the CMB transfer to the PUMC half its annual pledge, this half to be invested by the PUMC in China. But this strikes me as a dubious protection. In what enterprises or currency would the PUMC invest? If it

turned American dollars into local dollars in an exchange market where the local currency was rapidly depreciating, sizeable losses would be incurred. In any event, under present conditions in China, the hedge would be little more than a gamble - a gamble that might well turn out to be wrong. This opinion was confirmed by two or three financial people with whom I discussed this particular recommendation; none of them believed that at this juncture it was practicable.

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Looked at from the standpoint of the Trustees of the Foundation, if they made the grants you recommend, what would they be buying? You speak of "a minimum below which money invested in medical education in China would progressively lose its effectiveness." What guarantee would the Trustees have today that the \$9,000,000 you recommend would buy results above that minimum either now or in the foreseeable future? In other words, for what kind of medical school would the Trustees be providing - "a school of high quality" (your words) as in the past, or an impoverished school where adequate standards could not be maintained?

It seems to me that nobody can with any degree of assurance answer these questions today. The representatives of the four business concerns which I consulted were unanimous in believing that it was impossible to forecast the shape of things to come in China. Let me put down the impressions and opinions upon which these four representatives were substantially agreed:

1. All four share a feeling of personal disillusionment and heartache that the fourteen months since V-J Day have brought a sharp deterioration in personal, political and economic standards and relationships, both internal and external.

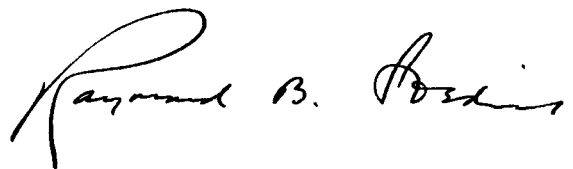
2. Deep-seated personal enmities and the vital Chinese consideration of face underlie and progressively undermine the political, economic and fiscal pictures - and they all add up to a struggle for power.
3. Even if the Central Government could suppress the Communists ("It is hard to contain an idea"), it is unlikely that the forces presently controlling the Kuomintang would then make significant concessions or reforms in the political, economic or social field.
4. The situation is almost bound to grow worse before it can be better, and an "explosion" within 2-3 years seems inevitable. The extent of further inflation and the timing and rate of revaluation are beyond guess, but factors like labor attitudes will probably not allow the "new levels" to bear any resemblance to the "old levels."
5. The internal Chinese Communist issue could conceivably become a USSR-US, and thus a world, problem.
6. Considerable evidence suggests a concerted Government-inspired drive to eliminate all foreign enterprise from China (banking, industry, etc.).
7. While it is generally hoped and believed that a workable situation will again return in the long run (10-25 years) through exhaustion and regeneration with new leadership, all four representatives look for very difficult if not chaotic conditions for at least the next 2-3, or even the next 5-10 years.
8. All therefore are presently operating on a "day-to-day" basis, keeping commitments and risks at an absolute minimum, and maintaining the closest possible intelligence.

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Under these circumstances I am strongly of the opinion that the Trustees of the Foundation would not be willing at this time to appropriate \$9,000,000 as a final settlement of our relations with the PUMC. Nor could I myself with any degree of enthusiasm support such a proposal before the Trustees. It seems to me that what is called for are tentative measures, adapted to the conditions of the hour. I earnestly hope

that the college can open in September 1947, assuming political conditions make it possible. How far will the present funds of the CMB go toward such a limited objective? Would it be necessary to start with more than the first year students? Would such a start require the re-opening of the hospital? I am now on technical ground where I am not competent to go. But I would strongly urge your Commission to explore the possibilities of a "day-to-day" operation, which would be effective until the future of China is clearer and more predictable than it is at the moment.

I cannot close this memorandum, which I have written with deep reluctance, without again expressing my own grateful appreciation - which I know is shared by all the Trustees - for the manner in which the Commission approached its task, and for the illumination and integrity which characterize its report. I am completely confident that the work of the Commission will prove to be of invaluable assistance as we all of us try to feel our way forward through the fog of uncertainty which conceals the future of China.

Raymond B. Borchers